

# SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Briggs Analyst: Jeff Garnier Bill Number: AB 813

Related Bills: See Prior Analysis Telephone: 845-5322 Amended Date: May 10, 2001

Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** Hot Water Recirculating System Credit

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended April 16, 2001.
- ☒ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☒ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as amended April 16, 2001.
- ☒ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 16, 2001 STILL APPLIES.
- ☐ OTHER - See comments below.

## SUMMARY

This bill would provide a credit equal to 50% of the costs of a hot water recirculating system.

## SUMMARY OF AMENDMENTS

The May 10, 2001, amendments:

- reduced the credit percentage from 100% to 50%;
- removed low-flow toilets from the list of qualified plumbing;
- disallowed any deduction for any cost for which the credit is being allowed; and
- limited the credit carryover period to seven years.

In the case of a new structure, the amendments clarified that the owner of the property would be entitled to the credit. The amendments also would require the Franchise Tax Board (FTB) to report annually to the Legislature, to the extent that data is available, on the utilization of the credit.

The May 10, 2001, amendments resolve one implementation concern and one policy concern. Including one new implementation concern, three implementation concerns and two policy concerns remain. For convenience, all of the department's concerns have been restated in this analysis.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

06/11/01

## **POSITION**

Pending.

### **Summary of Suggested Amendments**

Department staff is available to resolve the issues discussed in the "Implementation Concerns" below.

## **ANALYSIS**

### **THIS BILL**

For taxable years beginning on or after January 1, 2001, and before January 1, 2006, this bill would allow a credit for all taxpayers equal to 50% of the costs of a hot water recirculating system made operational with a qualified plumbing fixture that is installed as part of new construction. No deduction would be allowed for any cost for which the credit is allowed. If the credit exceeds the net tax or tax, the bill would provide that any unused credit may be carried over for seven years.

In the case of a new structure that has never been occupied for its intended purpose, the bill provides that the owner of the property, on and after the date the hot water recirculating system was installed, may be allowed the credit.

To the extent that information is available, this bill would require the FTB to annually report to the Legislature regarding the utilization of this credit.

### **IMPLEMENTATION CONCERNS**

It is unclear if the hot water pipe typically installed in structures would be part of the hot water recirculation system.

In order to avoid confusion, a threshold description or amount is needed for the terms "renovated" and "remodeled."

In the case of a structure that has not been occupied for its intended purpose, the bill provides that the owner of the property on and after the date the hot water recirculating system was installed may be allowed the credit. The bill does not specify how long "after" the taxpayer must hold the property to qualify for the credit. The term "after" may be confusing to subsequent buyers of the property.

## ECONOMIC IMPACT

### Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Estimated Revenue Impact			
Taxable/Income Years Beginning On or After January 1, 2001			
Enactment Assumed After June 30, 2001			
Fiscal Years			
(In Millions)			
	2001-2	2002-3	2003-4
Hot Water Recirculation Systems Credit	-\$13	-\$17	-\$22

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

### Revenue Discussion

The impact of this bill would depend upon the number and type of taxpayers installing these systems, the average credit claimed, and the average credit applied against tax liabilities.

It is projected that in California for 2001, approximately 115,000 single-family residences will be renovated or remodeled with an additional 115,000 new homes being started. Of these, 12,000 single-family home renovations are expected to qualify for this credit at an average system cost of \$350. It is also anticipated that 12,000 new homes will qualify the purchaser for this credit. Systems installed in new homes are more apt to include a third pipe, dedicated to the return of hot water to the water heater, since the installation of the pipe does not require extensive renovation as it would in existing homes. The systems installed in new homes are projected to cost approximately \$800, an average cost of various system types. The credit would be limited to 50% of the cost of the system.

The number of multifamily residences projected to be built in California in 2001 is 43,234. It is expected that approximately 4,000 of these residences will have systems installed at an average cost of \$800 per system. It is also expected that an additional 4,000 retrofit systems will be installed in multifamily residence renovations or remodels at an average cost of \$350 each. Five units is the projected number of units per each multifamily residence. The credit would be limited to 50% of the cost of the system.

Applications for industrial and commercial usages of hot water recirculation systems include hotels, hospitals, hair salons, ships, and machinery and tool manufacturers. The commercial and industrial systems can employ larger, more sophisticated systems and/or a vast number of systems for one business. Data pertaining to the cost, current usage, and potential growth rates for the industrial and commercial systems is not readily available as it is for residential applications. Due to the number and expense of these types of systems, the projected revenue loss was conservatively estimated at 50% of the total residential revenue loss.

The projected incentive effect for purchases of hot water recirculation systems ranges from 10% in 2001 to 15% in 2004, based on a "50% of cost" credit. Less than one percent of new California homes are now equipped with hot water recirculation systems.

One-half of the cost associated with these systems would not be deductible under the proposal as amended. Therefore, an offset of approximately \$500,000 was made in 2001 for amounts paid for these systems that would have been allowable as income tax deductions if not for this proposal.

For purposes of claiming the proposed credit, new homebuilders would be eligible to claim the credit in lieu of new homebuyers.

Estimates were developed in coordination with building industry experts at the California Building Industry Association, water usage experts at various California irrigation districts, representatives of hot water recirculation systems manufacturers, and information from various government agencies.

## **ARGUMENTS/POLICY CONCERNS**

The credit would be allowed for hot water recirculation system expenses paid or incurred with respect to property located either inside or outside California.

## **LEGISLATIVE STAFF CONTACT**

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